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| STATE OF MONTANA COMPLIANCE SUPPLEMENT FOR AUDITS OF LOCAL GOVERNMENT ENTITIES | REF: C/T-5 |
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| PROGRAM/SUBJECT: Cities and Towns - Claims and Warrants | |

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 Local Government Services Bureau
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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

CLAIMS APPROVAL:

1. Compliance Requirement:

- The payment of claims should be authorized by the council only when claims are adequately itemized and/or supported by documentation. (MCA 7-6-4301)

Suggested Audit Procedure:

- As part of expenditure testing, verify that claims are supported by adequate documentation. Documentation might include invoices, itemized billing statements, receiving reports, etc

WARRANTS SIGNED:

2. Compliance Requirement:

- All city or town warrants issued are to be signed by the mayor. (MCA 7-5-4102)
 MCA 7-6-4301 requires that all claims be reviewed by the city or town finance director or the city or town clerk before submission to the council, and that all claims be authorized by the council before being paid. Although no longer specifically required by statute, as an internal control matter, we still strongly recommend that all city or town warrants be countersigned by the city or town clerk or finance director as well as being signed by the mayor. (MCA 7-5-4102 and 7-6-4301)
(Note: This may vary in some cities or towns that have adopted alternative forms of government. If questions arise, check with the city or town attorney.)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

Suggested Audit Procedure:

- As part of expenditure testing, verify that all warrants are signed by the mayor and countersigned by the clerk or finance director, unless otherwise provided for that particular city or town.

TRAVEL EXPENSES AND MEMBERSHIP FEES AND DUES:

3. Compliance Requirements:

- City or town officials and employees should be reimbursed for travel expenses in accordance with the provisions of MCA 2-18-503:

When a privately owned vehicle is used on city or town business because a government-owned or leased vehicle is not available or because such use is in the best interest of the city or town, a mileage rate equal to the mileage allotment allowed by the United States Internal Revenue Service (IRS) for the current year shall be paid for the first 1,000 miles traveled in a given calendar month. Any miles traveled thereafter within the same month are reimbursed at 3 cents per mile less. If a city or town-owned or leased vehicle is available and the individual uses a privately-owned vehicle, a mileage rate of 3 cents per mile less than the mileage allotment allowed by the IRS for the current year shall be paid. If an airplane is used, reimbursement is allowed for nautical air miles traveled at a rate of twice the automobile mileage allotment. (MCA 2-18-503)

- The governing body of a city or town may pay the membership fees and dues in any organization of city and town officials when the purpose of the organization is improvement of laws relating to city and town government and their better and more economical administration. The governing body of any city or town may also pay the necessary expenses of any regular officer or employee of the city or town in attending any convention or meeting of such an organization of city or town officials. The expense payment may be made upon the direction of the governing body by order upon its minutes, stating that the public interest requires such attendance, or that the attendance by the officer or employee is necessary by virtue of his office. (MCA 7-5-4141 and 4142)
- Reimbursement rates for meal and lodging expenses while traveling on city or town business are not covered by the above statutes or any other state statute. The city or town governing body should establish a policy governing the reimbursement rates for meal and lodging expenses or the payment of per diem by the city or town.
(Note: AGO # 77, Vol. 40, holds that county commissioners may adopt a travel policy providing for the payment/reimbursement of reasonable meal and lodging expenses incurred by county officers or employees in the performance of official duties. It appears that the same would also apply to a municipality.)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

TRAVEL EXPENSES AND MEMBERSHIP FEES AND DUES – continued:

3. Compliance Requirements - continued:

- Every such person engaged in travel shall periodically submit a claim containing a schedule of expenses and amounts claimed for said period. Said schedule shall show in what capacity such person was engaged each day while away from the department in which said daily duties arose and shall show expense items of each day in detail, such as the amount of per diem allowance claimed, transportation fare, mileage, and other such items. (MCA 2-18-511)

Suggested Audit Procedure:

- As part of expenditure testing, test travel claims to determine that they comply with the provisions of the above statutes, and with the provisions of the city's or town's official travel policy for meal and lodging allowances.

DUPLICATE WARRANTS:

4. Compliance Requirement:

- Before a duplicate warrant or check is issued to replace a lost or destroyed warrant or check, the person entitled to receive it must deposit with the issuing municipal officer an indemnity bond for twice the amount of the original warrant or check. An indemnity bond is not required:
 1. when the payee is the U.S. government, a state of the United States, an agency, instrumentality, or officer of the U.S. government or of a state, county, city, city and county, town, district, or other political subdivision of a state, or an officer of an enumerated entity;
 2. when the owner or custodian is the State of Montana or an agency or officer of the state;
 3. when the owner or custodian is a bank, savings and loan association, admitted insurer, or trust company whose financial condition is regulated by the U.S. government or by the State of Montana;
 4. when the amount of the lost or destroyed warrant or check is less than \$100;
 5. when it can be established that a crime has been committed and as a result of such crime the warrant or check was stolen or destroyed;
 6. when it can be established that the warrant or check was mailed to an incorrect payee; or
 7. when the payee is a vendor or contractor doing business with the municipality.
- (MCA 7-6-4304)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

DUPLICATE WARRANTS - continued:

Suggested Audit Procedure:

- During expenditure testing and reading of the minutes of the council, and through observation during the audit, determine whether any duplicate warrants were issued during the audit period. If so, verify that an indemnity bond for twice the amount of the original warrant was deposited with the city or town, unless one of the exceptions noted above applies.

OUTSTANDING WARRANTS:

5. Compliance Requirement:

- All warrants or checks remaining outstanding for a period of one year or longer should be canceled by action of the city/town council. This action should be noted in the official minutes of the council. (MCA 7-6-4303)

(Note: Although the warrant may be canceled after one year, it appears the city or town obligation is not terminated until after 8 years, the time (statute of limitations) specified by MCA 27-2-202(1). (AGO # 1, Vol. 21))

(Note: MCA 70-9-802(14)(b), provides that the provisions of the Uniform Unclaimed Property Act are no longer applicable to property held by a local government entity. Accordingly, cancelled warrants or checks are no longer considered to be abandoned property for this purpose.

Suggested Audit Procedure:

- Review a listing of outstanding warrants and checks at June 30, and determine whether any have been outstanding for one year or longer. If so, verify that the warrants and checks have been subsequently cancelled by the city/town council and that such action is noted in the official minutes of the council.

REGISTERED WARRANTS:

6. Compliance Requirements:

- When any warrant drawn upon the treasury of a city or town and pursuant to any ordinance or resolution or direction of the council of the city or town is presented to the city treasurer or town clerk for payment and the warrant is not paid for want of funds, the city treasurer or town clerk shall endorse thereon "Not paid for want of funds", annexing the date of presentation, and signing the treasurer's or clerk's name to the warrant. From the time of the endorsement until the warrant is called for payment, the warrant bears interest at a rate fixed by ordinance, or if the warrant is subject to

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

REGISTERED WARRANTS - continued:

6. Compliance Requirements - continued:

purchase for investment by a county as provided in 7-6-2701 and is held by a county, the warrant bears interest at a rate fixed by the board of county commissioners under 7-6-2701. When there is sufficient money to pay a registered warrant, the city treasurer or town clerk must give notice as required by MCA 7-6-4502. Warrants cease to draw interest from the first publication of this notice. (MCA 7-6-4501 & 4502)

(**Note:** "Warrant" includes a check and an electronic funds transfer.)

- Upon the presentation of any warrant endorsed as specified in 7-6-4501, it shall be the duty of the city treasurer or town clerk to record, in a book to be provided for that purpose, the warrant, the date of such presentation, the number and date of the warrant, to whom payable, the fund on which drawn, and the amount thereof. (MCA 7-6-4503)

(**Note:** All payments to the state treasurer or a state agency must be made by electronic funds transfer if requested by the state treasurer or the state agency and if the city or town has the technology to conduct electronic funds transfers. (MCA 7-6-4501))

Suggested Audit Procedures:

- Determine if, during the audit period, any warrants were drawn on funds with insufficient money. If so, verify that the warrants were registered and the above procedures were followed.
- The city treasurer or town clerk should maintain a "register of registered warrants" in some form to document the warrant, the date of presentation, the number and date of the warrant, to whom payable, the fund on which drawn, the amount of the warrant, the amount of interest earned, and the date of payment of each registered warrant.

CHECKING ACCOUNT MUST BE INTEREST-BEARING:

7. Compliance Requirement:

- If claims against the city or town are paid by check, rather than warrant, the checking account must be interest-bearing and must be held by a bank within the city or town. (MCA 7-6-4302)

Suggested Audit Procedure:

- Determine if the city or town uses checks rather than warrants to pay claims. If so, determine that the checking account is interest-bearing and that it is held by a bank within the city or town.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

FULL DISCLOSURE OF PUBLIC EXPENDITURES ON FEDERAL LOBBYING

8. Compliance Requirements:

- **Effective October 1, 2007** - Each quarter of a fiscal year that a local government (i.e., county, a consolidated government, an incorporated city or town, a school district, or a special district), makes an expenditure for the services of a lobbyist to lobby an elected federal official or an appointee of an elected federal official, the local government shall make readily available for public inspection upon request a summary report itemizing each lobbying service provided and how much money was spent for each service.
- Each local government subject to the above shall:
 - (a) designate an office from which a copy of the report may be obtained; and
 - (b) post a copy of the report to the local government's website on the internet, if the local government has a website.

(MCA 5-7-120)

Suggested Audit Procedures:

- Through inquiry, a review of Council minutes, and a review of expenditures, determine if the local government incurred expenditures for lobbying of elected federal officials.
- If so, obtain a copy of the summary report itemizing the lobbying service, and if applicable, verify that the report is on the local government's website.